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C O N F I D E N T I A L LILONGWE 000109

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STATE FOR AF/S ADRIENNE GALANEK  
STATE FOR EB/IFD/OMA FRANCES CHISHOLM  
STATE FOR EB/IFD/ODF LINDA SPECHT  
TREASURY FOR INTERNATIONAL AFFAIRS/AFRICA/LUKAS KOHLER

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SUBJECT: MALAWI REPLACES RESERVE BANK GOVERNOR

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Classified By: Econoff William Taliaferro

1. (U) The GOM announced on Tuesday that Reserve Bank of Malawi (RBM) Governor Elias Ngalande is to be replaced at the end of his contract on February 28. He is to be replaced with the recently retired chief executive and current chairman of Stanbic Bank, Victor Mbewe. Stanbic is Malawi's second-largest commercial bank.

2. (C) Ngalande's replacement has taken most observers by surprise, as he generally fits the technocratic mold of President Bingu wa Mutharika's government: he is a PhD-holding former university lecturer with a ready grasp of the technical intricacies of monetary policy. During his five-year tenure as governor, he has maintained the RBM's reputation as a competent and efficient institution. As reported in reftel, he has used every means available to maintain as solid a currency as the GOM's previously irresponsible fiscal policy allowed.

3. (C) However, Ngalande has been suspected of declining to pursue politically connected financial institutions that may have been involved in money laundering. This could well be part of Mutharika's motive in replacing him. (NOTE: Mutharika was deputy governor of RBM under Ngalande before being appointed Minister of Economic Planning. Whether he had first-hand knowledge of these allegations is not known. End note.) As well, Ngalande is rumored to have privately opposed Mutharika's pet MK 1 billion (\$10 million) rural loan scheme, which will leverage dormant RBM accounts to fund a microfinance project.

4. (U) Ngalande's successor, Victor Mbewe, breaks the longstanding tradition of appointing brilliant technicians to head the bank. Though Mbewe recently retired after a long career in banking, he came up through the human resources and administrative organizations of the parastatal Commercial Bank. However, he led the bank through its privatization, its rebranding as Stanbic Bank, and the subsequent recovery to financial solidity. That he did so during the years when commercial banking grew fat from ballooning government debt apparently does not impinge on this reputation as a competent executive and knowledgeable banker. Mutharika recently appointed him to head the controversial MK 1 billion rural loan scheme mentioned above.

5. (SBU) COMMENT: Mbewe's principal challenge will be to deal with the legacy of monetary overhang from former President Bakili Muluzi's regime. He has a good staff of monetary experts under him to keep him on the right track, but whether he can maintain the relative independence Ngalande did, remains to be seen. If Mutharika continues down the path of fiscal responsibility, and stays out of trouble with his donors, Mwebembe's job could be quite a bit easier than his predecessor's.

GILMOUR